

Idaho Legislative Audits
P.O. Box 83720
Boise, ID 83720-0054
208-334-2475



Idaho Department of Environmental Quality
Drinking Water State Revolving Fund

Opinion Audit Report

Issued: April 5, 2005
Fiscal Year: 2004



EXECUTIVE SUMMARY LEGISLATIVE AUDITS

IDAHO DEPARTMENT OF ENVIRONMENTAL QUALITY DRINKING WATER STATE REVOLVING FUND

PURPOSE AND SCOPE. We have audited the financial statements of the Idaho Department of Environmental Quality, Drinking Water State Revolving Fund (the Fund) for the fiscal year ended June 30, 2004, in accordance with auditing standards generally accepted in the United States of America. The purpose of our audit is to determine if the Fund's financial statements are materially accurate and reliable, and that the Fund complied with laws and regulations affecting fiscal operations. The U.S. Environmental Protection Agency (EPA) requires a separate annual financial and compliance audit of the Fund.

CONCLUSION. We conclude that the Fund's financial statements are materially accurate and reliable, and fiscal operations materially comply with related laws and regulations. As a result, we issued an unqualified opinion on the Fund's financial statements.

FINDINGS AND RECOMMENDATIONS. There is one finding and recommendation in this report as explained below.

FINDING #1. The Department's system used for the Fund's accounting is cumbersome and contributes to accounting errors. The accounting system is more than 15 years old and requires multiple transactions and data entries. It also requires peripheral systems to complete necessary accounting, increasing the opportunity for errors. Only one fiscal employee has the knowledge to operate and access the system, which increases the risk that funds could be misappropriated and that errors may go undetected. The Department only generates financial statements once a year. Generating financial information more often would provide management with a tool to monitor financial activities.

Although the errors were not material, they resulted in incorrect financial statements. Furthermore, using the current accounting system may not be the most efficient way to complete necessary accounting.

We recommend that the Department upgrade and improve the accounting system and procedures. This should include the following:

1. Consider purchasing a new integrated accounting system. It is likely that the Department can purchase an "off the shelf" software program that is not very expensive and satisfies its needs.
2. Complete timely reconciliations of transactions, complete all accounting in one fund detail, and reduce the number of program codes.
3. Ensure that more than one person is trained to complete the Fund's accounting.
4. Generate accounting reports in a timely manner and require management review to monitor financial activities.

PRIOR FINDINGS AND RECOMMENDATIONS. There were no findings and recommendations in the prior report.

AGENCY RESPONSE. The Department has reviewed the report and is in general agreement with its contents.

FINANCIAL SUMMARY. The Fund is financed by grants from the EPA and State matching funds. The Fund is used to finance infrastructure needs of public water systems in order to achieve or maintain compliance with the Federal Safe Drinking Water Act requirements and to protect public health. Fund operations began in fiscal year 1998, and the Fund's first loan was made in fiscal year 1999. The financial activity of the Fund for the fiscal year ended June 30, 2004 is summarized as follows:

Drinking Water State Revolving Fund
Statement of Net Assets at June 30, 2004

ASSETS:

Current Assets

| | |
|---------------------|-------------|
| Cash | \$3,044,462 |
| Loans Receivable | 673,709 |
| Interest Receivable | 224,975 |
| Due from EPA | 105,563 |
| Due from State | 1,593,553 |

Non-Current Assets

| | |
|------------------|-------------------|
| Loans Receivable | <u>21,917,307</u> |
|------------------|-------------------|

| | |
|--------------|---------------------|
| TOTAL ASSETS | <u>\$27,559,569</u> |
|--------------|---------------------|

LIABILITIES:

Current Liabilities

| | |
|------------------------|------------------|
| Miscellaneous Payables | <u>\$126,681</u> |
|------------------------|------------------|

| | |
|-------------------|------------------|
| TOTAL LIABILITIES | <u>\$126,681</u> |
|-------------------|------------------|

NET ASSETS:

| | |
|--------------|---------------------|
| Unrestricted | <u>\$27,432,888</u> |
|--------------|---------------------|

| | |
|------------------|----------------------------|
| TOTAL NET ASSETS | <u><u>\$27,432,888</u></u> |
|------------------|----------------------------|

Drinking Water State Revolving Fund
Statement of Revenues, Expenses, and Changes in Net Assets for the Year Ended June 30, 2004

| | |
|--|----------------------------|
| <u>Operating Revenues</u> | |
| Interest Earned - Loans | \$614,500 |
| Interest Earned - Fund Balance | 40,872 |
| EPA Operating Revenues | 1,737,034 |
| State Operating Revenues | <u>347,408</u> |
| Total Operating Revenues | <u>\$2,739,814</u> |
| <u>Operating Expenses</u> | |
| Program Administration | \$223,942 |
| Program Set-Aside | <u>1,860,500</u> |
| Total Operating Expenses | <u>\$2,084,442</u> |
| Operating Income | \$655,372 |
| <u>Non-Operating Revenues</u> | |
| Contributions from EPA | 4,887,804 |
| Contributions from State | <u>978,965</u> |
| Total Non-Operating Revenue | <u>\$5,866,769</u> |
| Changes in Net Assets | \$6,522,141 |
| Net Assets - Beginning of Year as Restated | <u>20,910,747</u> |
| Net Assets - End of Year | <u><u>\$27,432,888</u></u> |

OTHER ISSUES. We discussed other, less important issues which, if changed, would improve internal control, ensure compliance, or improve efficiency.

This report is intended solely for the information and use of the Idaho Department of Environmental Quality, the U.S. Environmental Protection Agency, and the Idaho Legislature and is not intended to be, and should not be, used by anyone other than these specified parties.

We thank the director, Toni Hardesty, and her staff for their assistance and cooperation given to us during this audit.

QUESTIONS CONCERNING THIS AUDIT SHOULD BE DIRECTED TO:

Ray Ineck, CGFM, Supervisor, Legislative Audits

Thomas Haddock, CPA, CGFM, Managing Auditor

Report SA24604

| |
|--|
| For a copy of the entire audit report , contact Legislative Services Office, Audit Division, State Capitol Building, 700 W. Jefferson Street, P.O. Box 83720, Boise, Idaho 83720-0054, or call 208-334-3540. |
|--|